

Foreword

The 2000 Budget Act is very good for California public education—much better than the budget has been for many years. The Budget Act and the accompanying trailer bills provide \$38.1 billion in state and local funds for 2000-01, an increase of \$4.5 billion, or 13.3 percent, over the 1999 Budget Act spending level. The budget also retroactively provides a significant increase in funds for 1999-00. As a practical matter, the 1999-00 funds are available for expenditure in 2000-01 and are one-time in nature. The funding increase for 1999-00 is \$1.5 billion, a 4.4 percent increase over the 1999 Budget Act spending level.

The funding increases raise Proposition 98 spending to \$6,265 per pupil in average daily attendance (ADA) in 1999-00 (4 percent over the 1999 Budget Act level) and \$6,701 per ADA in 2000-01 (11.2 percent over the 1999 Budget Act level).

The budget funds statutory enrollment growth for revenue limits and for categorical programs and provides cost-of-living adjustments of 3.17 percent. It provides \$1.8 billion to eliminate the revenue limit “deficit factor” as well as \$1.2 billion for one-time grants for school improvement and achievement, school site employee bonuses, English language instruction, and educational technology. The budget establishes new, ongoing programs for teacher recruitment, teacher retention, and professional development. It also expands existing programs and establishes new programs in other areas.

This report contains a detailed summary of the major features of the 2000 Budget Act and the trailer bills affecting K–12 education. The report is organized as follows: for each major program, the report identifies the 2000 Budget Act item number, the Standardized Account Code Structure (SACS) Resource Code, the authorizing *Education Code* section, and the key features of the 2000-01 appropriation, as provided in the budget and/or related legislation.

The report also presents comments by Department of Education staff to help local educational agencies in implementing these programs. The staff comments highlight key dates, reporting forms, data requirements, and other relevant information that can be helpful to local officials in securing state funding for these programs.

I would also like to direct your attention to the version of this report that is available on the Internet. Department staff members have taken advantage of technology by incorporating hypertext links from the report to other useful sites. The online report allows users to move immediately from our reviews of each program to the actual Budget Act item containing the appropriation and then to the specific *Education Code* section authorizing the program. In addition, the report contains hypertext links allowing the reader to send an e-mail comment or question to the staff person responsible for each program. The report can be found on the Internet, through the home page of the Department's School Fiscal Services Division, at <http://www.cde.ca.gov/sfsdiv>.

I hope you find this report useful, and I look forward to working with you to secure an even better budget for our schools next year.

A handwritten signature in black ink, reading "Delaine Eastin". The signature is fluid and cursive, with a large initial "D" and "E".

DELAINE EASTIN

State Superintendent of Public Instruction

Overview

On June 30, 2000, Governor Gray Davis signed [Assembly Bill 1740 \(Chapter 52, Statutes of 2000\)](#), the 2000 Budget Act. This measure, along with [Senate Bill 1667 \(Chapter 71, Statutes of 2000\)](#) and other budget trailer bills, sets the conditions for the allocation of state funds for California public schools through June 30, 2001.

This report provides a detailed summary of the 2000-01 state education budget. It is an update of earlier information on the budget provided in *Management Bulletin 00-03*, issued July 7, 2000. This section presents a brief overview of the budget, including the major provisions relating to K–12 education. The sections that follow present in more detail the specific provisions of the 2000-01 spending plan for public schools. Each of those sections contains the pertinent facts of the budget and associated trailer bills, including the Budget Act item and *Education Code* sections authorizing the expenditures and the Standardized Account Code Structure (SACS) Resource Code to be used in accounting for them locally. The sections also contain (1) comments concerning implementation schedules and reporting deadlines; and (2) the names of persons to contact and their telephone numbers.

State General Fund Budget

For the third year in a row, the 2000 Budget Act reflects a dramatic improvement in state tax revenues relative to the Governor's original budget proposal. In January, the state Department of Finance projected that General Fund revenue growth would be 11.2 percent in 1999-00 and 4.7 percent in 2000-01. In the May revision, the Department projected that General Fund revenue growth would be 21 percent in 1999-00 and 5.5 percent in 2000-01, not including the effect of the Governor's tax relief proposals. The May increase in projected revenue growth made an additional \$12.3 billion above the amount anticipated in January available for the state budget during the two-year period 1999-00 and 2000-01.

The 2000-01 revenue growth projection is less than the 1999-00 growth projection to recognize the volatility of capital gains and stock option income, which contributed to the remarkable revenues in 1999-00.

Table 1 shows total General Fund revenues, expenditures, and year-end reserves for both 1999-00 and 2000-01. The table shows that, under the 2000 Budget Act, the budget year is expected to end with a reserve of \$1.8 billion (2.4 percent of General Fund revenues). The figures reflect reductions in General Fund revenues attributable to tax relief measures enacted as part of the budget package.

Table 1 - General Fund Summary
(Dollars in Millions)

	1999-00	2000-01
Prior-Year Balance	\$3,851	\$7,827
Revenues	71,162	73,856
Total Resources	\$75,013	\$81,683
Total Expenditures	\$67,186	\$78,816
Fund Balance	\$7,827	\$2,867
Other Obligations	592	592
Set-Aside for Legal Contingencies	—	500
Reserve	\$7,235	\$1,775

The budget provides a total of \$42.9 billion in state and local funding in 2000-01 for K–12 schools, other educational agencies, and community colleges under Proposition 98. The budget also increases the funding available for 1999-00 to \$39.5 billion. These funding amounts exceed the required expenditures by \$1.5 billion in 1999-00 and \$1.4 billion in 2000-01.

Proposition 98. Proposition 98, approved by the voters in 1988, provides K–12 schools and community colleges with a constitutionally guaranteed minimum level of

funding. Although the actual calculation of the guarantee is quite complex, the basic principles of Proposition 98 are relatively simple:

- In years of “normal” state revenue growth, K–14 education is guaranteed a level of state and local funding at least equal to that which schools and community colleges received in the prior year, adjusted for changes in enrollment and per capita personal income.
- In years of extraordinarily “good” or “bad” revenue growth, K–14 education participates in the state’s gains or losses according to specified “fair share” formulas.
- Following a “fair share” reduction in the level of the Proposition 98 funding guarantee, the state is obligated to eventually restore K–14 education funding to the level that schools and community colleges would have received if no reduction had occurred. The pace of this restoration is tied to the pace of the state’s economic recovery.

Test 1, Test 2, and Test 3. In practice, the minimum funding guarantee is determined by one of three so-called tests. Specifically, K–14 education is guaranteed a minimum funding level based on the greater of:

Test 1—Percent of General Fund Revenues: the percentage of state General Fund tax revenues received by schools and community colleges in 1986-87 as adjusted for the impact of shifts in property taxes from local governments to schools (currently about 34.6 percent)

OR

Test 2—Maintenance of Prior-Year Service Levels: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and “inflation” as measured by the change in per capita personal income

However, in years when the growth in personal income exceeds the growth in General Fund revenues by more than 0.5 percent, the following alternative test is substituted for Test 2:

Test 3—Adjustment Based on Available Revenues: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and “inflation” as measured by the change in per capita General Fund revenues plus 0.5 percent

Test 3 is intended to ensure that K–14 education bears a “fair share” of the state’s General Fund revenue growth in extraordinarily good or bad revenue growth years. (Note that Test 2 and Test 3 differ only in the inflation factors used.)

Recently, the Proposition 98 funding guarantee was generally computed on the basis of Test 2, which is unaffected by changes in General Fund revenues (see Chart 1). When the guarantee is based on Test 1, K–14 education gains or loses about 35 cents of every additional dollar of General Fund revenues gained or lost. When Test 3 applies, the guarantee is even more sensitive to changes in General Fund revenues—gaining or losing about 63 cents of every marginal tax dollar.

**INSERT CHART 1 ABOUT HERE—SAME AS CHART IN 99 BUDGET
REPORT**

Under the revenue assumptions underlying the 2000 Budget Act, the Proposition 98 minimum funding guarantee for 1999-00 is determined by Test 2 and for 2000-01 by Test 3. (In 2000-01 the guarantee amount is barely inside the Test 3 range.) As was the

case during the past two years, however, the budget funds K–14 education at levels exceeding the minimum amounts required by the State Constitution.

Restoration. If the Proposition 98 guarantee is reduced because of the application of Test 3 (or a suspension of the guarantee), the amount lost is never repaid. It must eventually be restored in the future, however, according to a formula that is tied to the pace of the state’s economic recovery. The restoration target level for any year equals the sum of that year’s Test 2 guarantee plus a “maintenance factor” that represents the cumulative amount by which the Proposition 98 guarantee has been underfunded (as adjusted for enrollment growth and inflation).

During the recession of the early 1990s, the outstanding maintenance factor grew to \$2.2 billion at the end of 1993-94. During the past several years, however, Proposition 98 funding has more than covered enrollment growth and inflation. As a result, at the end of 1997-98, the \$2.2 billion was fully restored. This process of restoration was primarily responsible for the major funding increases received by K–14 education in 1995-96 and 1996-97. More recently, however, another factor has been at work: the extraordinary growth of tax revenues resulting from a booming state economy. The availability of these new revenues has enabled the Legislature and the Governor to provide funding in excess of the Proposition 98 minimum funding guarantee.

K–12 Education Highlights

The budget provides a total of \$38.1 billion in state and local funding in 2000-01 for K–12 education under Proposition 98, an increase of \$4.5 billion over the 1999 Budget Act level. The budget also increases the funding available for 1999-00 to \$35.1 billion, an increase of \$1.5 billion over the 1999 Budget Act level. As a practical matter, the 1999-00 funds are available for expenditure in 2000-01 and are one-time in nature.

Chart 2 shows the trend in Proposition 98 funding per pupil in K–12 schools from 1990-91 through 2000-01. The chart shows that, under the 2000 Budget Act, schools will

have received Proposition 98 funding averaging \$6,265 per pupil in average daily attendance (ADA) in 1999-00; in 2000-01 schools will receive an average of \$6,701 per ADA.

INSERT CHART 2 ABOUT HERE

Table 2 summarizes total funding for K–12 education from all sources in 2000-01. The table shows that the budget projects total funding of \$49.8 billion.

**Table 2 - Funding for K–12 Education
All Sources and Proposition 98
(Dollars in Millions)**

Sources of Funding	Funding from All Sources*	Funding Guaranteed by Proposition 98
State General Fund	\$30,253	\$27,328
State Lottery	745	—
Other State Funds	65	—
Federal Funds	4,822	—
Local Property Tax	10,843	10,748
Local Debt Service Tax	498	—
Other Local Funds	<u>2,595</u>	<u>—</u>
Total	\$49,821	\$38,076

*Includes California Department of Education state operations, state special schools, state school facilities bond repayments, state contributions to STRS, State Library, and Commission on Teacher Credentialing.

K–12 Education Spending Plan

As noted, the budget estimates that state and local funding for K–12 schools that counts toward Proposition 98 will total \$38.1 billion in 2000-01. The budget also shows \$35.1 billion in state and local funding counting toward Proposition 98 in 1999-00. Proposition 98 funding for K–12 schools will have increased by \$1.5 billion in 1999-00 and by \$4.5 billion in 2000-01 above the 1999 Budget Act level.

Table 3 shows the uses of new Proposition 98 funds available for ongoing purposes. This consists of the \$4.5 billion in new Proposition 98 funding available in 2000-01.

Table 4 shows the uses of one-time funding. These one-time funds consist of \$1.5 billion in new Proposition 98 funding available for 1999-00 plus an additional \$250 million of one-time reappropriated Proposition 98 funds that are not counted in the 2000-01 totals.

Table 3 - Uses of New Ongoing Proposition 98 Funds
(Dollars in Millions)

Revenue-limit deficit reduction	\$1,840.0
Cost-of-living adjustments	
K-12 apportionments	\$748.7
Special education	95.2
Other categoricals	216.5
Subtotal	\$1,060.4
Enrollment growth	
K-12 apportionments	\$369.3
Special education	45.1
Other categoricals	76.3
Subtotal	\$490.7
New and expanded programs	
Accountability programs	\$109.6
Algebra academies	21.5
Cal-SAFE	32.5
Child care and development programs	225.2
Deferred maintenance	32.6
English language learners	20.0
Mandates	50.6
Special education	73.1
Supplemental instruction	101.9
Teacher recruitment and retention	183.8
Teacher training and improvement	47.1
Testing	50.7
Subtotal	\$948.6
Baseline adjustments and other changes	\$124.2
Total	\$4,463.9

Table 4 - Uses of One-Time Proposition 98 Funds
(Dollars in Millions)

1999-00 Funds

Academic Performance Index Schoolsite Employee Performance Bonuses	\$350.0
Child Care Facilities Revolving Fund	25.0
Education technology	175.0
English language and intensive literacy	250.0
Mandates	139.0
School Improvement and Pupil Achievement Block Grant	425.0
Other	113.5
Subtotal	\$1,477.5

2000-01 Funds

Charter School Revolving Loan Fund	\$25.0
Education technology	108.8
Special education	29.9
Teacher recruitment and retention	20.0
Testing	12.0
Other	51.1
Subtotal	\$246.8
Total	\$1,724.3

In addition to these funds, there are a number of other budget changes that are not included in the Proposition 98 totals that are available to fund or to support school programs. Table 5 shows selected other budget changes affecting K–12 programs that are not included in the Proposition 98 totals.

Table 5 - Selected Non-Proposition 98 Budget Changes
(Dollars in Millions)

Tax credits for teachers	\$218.0
Scholarships for students with high test scores	117.0
Education technology (connectivity)	50.0
Teacher development institutes	87.7
Teacher development institute stipends	38.0
Public library literacy grants	10.0
Media campaigns for teacher recruitment	9.0